

ACI without appropriate safeguards and conditions to protect against cross-subsidization and preferential treatment would allow Ameritech to capture Ameritech Michigan's local exchange customers in areas where potential competitive alternatives exist, before such potential competitors are able to get a foothold in the market. TCG Detroit witness Teske explains:

Considerable harm to the public interest could result from the establishment of duplicate affiliates to resell local exchange service in Michigan. In the short-run, while ACI relies entirely on reselling Ameritech Michigan services, ACI could receive more favorable rates for resold services than those available to competitors. ACI would be able to capture all of Ameritech Michigan's local exchange customers in areas where a potential competitive alternative exists, by undercutting not only Ameritech Michigan/ACI's competitors, but by undercutting Ameritech Michigan's tariffed local exchange rates. Thus, ACI would be able to prevent the emergence of competition, and Michigan consumers would be prevented from gaining the advantages of a marketplace with viable, non-affiliated competitors.

(5 Tr 915-916). (Emphasis added)

Indeed, the use by a monopoly such as Ameritech Michigan of its affiliate ACI would be a rational monopoly decision so as to maintain existing market share. Again, Dr. Teske explains:

A rational strategy on the part of a monopolist such as Ameritech Michigan would be to preserve its market share and stymie the emergence of competition by creating its own "competitive" alternative, and cleanly dividing Michigan ratepayers into customer of two separate entities; those for whom a potential competitive alternative exists, and those for whom a potential competitive alternative does not exist. Michigan ratepayers in the competitive areas could receive lower local exchange service rates than the tariffed rates they formerly received under the Ameritech Michigan tariff, while ratepayers in monopoly areas would still be subject to "geographic deaveraging" and would receive new, higher rates than the local exchange service rates formerly received under the Ameritech Michigan tariff.

(5 Tr 916). (Emphasis added).

Relying upon testimony from ACI witness Teece, the ALJ asserts that ACI would have no incentive to undertake any anti-competitive conduct, such as cost-subsidization or undue discrimination (PFD, pp. 19-20). Although, the ALJ recognizes the fact that local rates are largely deregulated under the MTA and that Ameritech Michigan may raise rates, he nevertheless believes that Ameritech Michigan's ability to raise its rates is unaffected by whether or not ACI is allowed to enter the market. Frankly, the ALJ misses the point. The inclination of Ameritech Michigan to raise its rates in competitive markets would be greater if doing so will help to subsidize its affiliate which has entered the more competitive market for local exchange. It's not a question of Ameritech's ability to raise rates in these markets, its the increased likelihood it would do so if its affiliate ACI were also in the market.

Indeed, there is ample evidence to show that Ameritech is already taking steps to potentially exploit the segregation of the "competitive" and monopoly local exchange service markets in Michigan. Dr. Teske testified:

- Q. Is there any evidence that Ameritech Michigan intends to restructure its local exchange service rate structure with the result that rates may be higher in areas where potential competition does not exist?
- A. Yes. Ameritech Michigan has filed an application to restructure its basic local exchange rates and services in Michigan [referring to the Application of Ameritech Michigan in Case No. U-11039 to restructure its basic local exchange rates and services].³ The application proposes to condense the current seven rate groups into three access areas on the basis of the number of access lines per square mile in exchanges. The resulting proposed restructure of rate groups result in

³On May 10, 1996, in its Opinion and Order in Case No. U-11039, the Commission approved Ameritech Michigan's application to restructure its basic local exchange rates and services in Michigan. Therefore, this concern is no longer hypothetical.

Access Areas A and B, where a potential competitive alternative exists, and Access Area C, where a potential competitive alternative does not exist. The application proposes that Access Area C will have the highest rates, and Access Area A will have the lowest rates. Furthermore, ACI has reflected the Access Areas and rate restructure proposed by Ameritech Michigan in Case No. U-11039 in the illustrative tariff attached to its application as Exhibit C.⁴

(5 Tr 916-917). Ameritech's steps to restructure its rate groups in conjunction with Ameritech's creation of a duplicate affiliate to resell intraLATA and basic local exchange service would effectively allow Ameritech to engage in a form of price discrimination, enabling Ameritech Michigan to cross-subsidize its affiliate ACI's entry and emergence in the market for local exchange service. Dr. Teske testified on how this would manifest itself and how the public interest would be harmed.

Q. Assuming that Ameritech Michigan and ACI both adopt the Access Area and rate restructure proposed in Case No. U-11039, how would the public interest be harmed?

A. The primary concern results from the simultaneous creation of a duplicate affiliate to resell intraLATA and basic local exchange service, a proposed Access Area rate structure that divides the state into areas on the basis of whether a potential competitor exists, and the absence of information about the rates, terms, and conditions of the basic local exchange resale arrangements between Ameritech Michigan and ACI

ACI would be able to obtain more favorable resale arrangements from Ameritech Michigan for basic local exchange service than any other new entrant. Even assuming that Ameritech Michigan has a resale tariff on file, unless specifically prohibited, it has every incentive to provide more favorable rates, terms, and conditions to its affiliate through Individual Customer Basis (ICB) contracts. The result would be a dual rate structure with unreasonably higher rates than customers in Access Area A. In addition to the absence of a competitive alternative, as well as the benefits that result from

⁴The illustrative tariff was admitted into evidence in this case as Exhibit A-27.

competition, rural Michigan ratepayers would be burdened with higher monopoly rates than rates in other areas to finance Ameritech Michigan's anticompetitive capture of urban basic local exchange markets.

(5 Tr 917-918). (Emphasis added)

The possibility of cross-subsidization between Ameritech Michigan and its affiliate ACI would not be limited to situations where ACI is mere a local service reseller. If ACI becomes a provider of facilities-based local exchange service there are still concerns of cross-subsidization which would harm customers and which would allow ACI to gain an unfair competitive advantage in the markets for local exchange and interLATA service. First, revenues from the provision of basic local exchange service by Ameritech Michigan may be used to cross-subsidize ACI's facilities-based local exchange service, with the result that ACI's basic local exchange service could be priced below its total service long-run incremental cost (TSLRIC). (5 Tr 918). Dr. Teske testifies on the substantial incentive for Ameritech to undertake this type of cross-subsidization to enable ACI to reduce service prices below its TSLRIC:

If ACI is able to undercut Ameritech Michigan's basic local exchange service prices in those areas by pricing below total service long-run incremental cost, then Ameritech Michigan will lose its local exchange customers in those areas, not to the competitor, but to its own affiliate. Though Ameritech would lose money in the short-run, they could make this up by charging higher rates in other areas, and by the potential for packaging local exchange service with other service. This type of anticompetitive behavior is classic predatory pricing for the purpose of undercutting potential competitors and driving them out of business. The result would be that Ameritech would retain its basic local exchange service monopoly in areas of the state even where potential competitive alternatives exist.

(5 Tr 919). (Emphasis added). ACI's incorporation into its illustrative tariffs of Ameritech Michigan's rate restructuring approved in Case No. U-11039 allows Ameritech to engage in this

strategic differential pricing. Without adequate safeguards against such abuse, Ameritech would be able to unreasonably discriminate between ratepayers in the same rate classes and would allow Ameritech to preserve its dominant share in the market for basic local exchange.

Second, without adequate safeguards Ameritech Michigan would be able to sell or transfer to its affiliate ACI capital assets financed by regulated service revenues at more favorable amounts than these assets' replacement value. Ameritech has an incentive to make such inter-affiliate transfers since Ameritech could profit in the long-run by reducing the price of its basic local exchange service below TSLRIC in its areas where potential competition might exist. Again, this would help Ameritech retain its monopoly market share. (S Tr 920-921).

Finally, ACI's status as a duplicate facilities-based local exchange service provider to Ameritech Michigan may in the long-run allow ACI to establish more favorable access charges for its long-distance customers than Ameritech Michigan's access rates. Indeed, Ameritech's intention to establish ACI as a separate affiliate which would provide both local and long-distance helps to facilitate this potential cross-subsidization. Dr. Teske explains the reasons for this strategy:

First, assuming that ACI becomes a facilities-based provider of basic local exchange service, Ameritech will avoid all requirements to impute access charges charged to the affiliate for local exchange access to its own services, because ACI would be providing local exchange access to itself for completion of long-distance traffic.

Second, ACI would have the ability to selectively offer its bundled local and long-distance service in areas where a competitive choice for basic local exchange service exists. The existence of a duplicate affiliate to provide local exchange service will allow ACI to offer more favorable access charges, perhaps on an ICB basis, to only those customers who have a competitive alternative, and who purchase long-distance service from ACI. All other long-distance customers in Michigan will be customers of interexchange (IXCs) other than ACI,

and must pay Ameritech Michigan's less favorable access rates passed through to them by IXC's.

(5 Tr 921-922).

Ameritech Michigan would be able to offer higher explicit access rates to its affiliate's competitors than ACI would implicitly offer to its own long-distance customers through their interLATA rates. In addition, the creation of duplicate affiliate providers of local exchange service would result in Michigan customers paying different and unreasonably discriminatory access rates in their interLATA rates. (5 Tr 922). This would be very harmful to consumers and will significantly retard the growth of greater competition in the local and long-distance service markets. This is clearly contrary to the public interest, and the ALJ erred by not adequately considering these concerns when he made his findings.

CONCLUSION AND REQUEST FOR RELIEF

The evidence in this proceeding strongly demonstrates the inherent concerns arising from the establishment by a monopoly of a duplicate affiliate provider of local exchange services. Such a proposition is fraught with the danger of cross-subsidization between affiliates, preferential treatment by the monopoly provider in favor of its affiliate and the opportunity for discriminatory pricing. The problem with ACI's application in this proceeding is that it amplifies rather than attempts to resolve these concerns. The ALJ discounted or ignored such concerns. Contrary to the ALJ's findings in his PFD, the record shows that ACI has not provided this Commission with enough information to ensure against the potential for affiliate abuse between ACI, Ameritech Michigan and their affiliates. Although TCG has usually not advocated for the rejection of licenses for telecommunication services in various other proceedings ACI's presentation in this case is so troubling that TCG believes an

approval by the Commission in this case would clearly be contrary to the public interest. Hence, TCG recommends that the Commission reject the findings and recommendations made by the ALJ, and issue an order denying ACI's application for a license to provide basic local exchange service in the service territories of Ameritech Michigan.

Respectfully submitted,

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Dated: July 29, 1996

1034450

ATTACHMENT A

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the Matter of the Application of)
AMERITECH COMMUNICATIONS, INC.)
for a License to Provide Basic)
Local Exchange Service to Ameritech)
Michigan and GTE North, Inc.)
Exchanges in Michigan)

)

Case No. U-11056

INITIAL BRIEF OF
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Dated: June 17, 1996

Since TCG-Detroit is so firmly committed to fair competition in the local exchange, it is naturally very reluctant to oppose any legitimate application for a license. However, this case is so transparent and unsupported it demonstrates the exception. This application for a license is granted is more likely to restrain competition and increase monopolization than the opposite. This application, it seems, is not a legitimate request to provide basic local exchange service, since Ameritech obviously already possesses that authority. For reasons set forth below, TCG-Detroit feels one license in the basic local exchange market for Ameritech is enough, and it opposes this second one.

Argument

1. THE EVIDENCE IN THIS CASE SHOWS THAT AMERITECH COMMUNICATIONS' APPLICATION FOR A LICENSE IS TO OBTAIN A VEHICLE IN WHICH TO CIRCUMVENT COMPETITIVE SAFEGUARDS IN PROVIDING INTER-LATA SERVICE RATHER THAN A GENUINE DESIRE TO PROVIDE BASIC LOCAL EXCHANGE SERVICE

Ameritech Communications represents in its Application in this case that it desires a license to provide basic local exchange service in Ameritech Michigan and GTE Northern exchanges in Michigan and authority to provide basic local exchange services on a resale basis. Its Application Ameritech Communications then indicates that it plans to offer its customers "full service" options and provide "nearest shopping" service which would include long distance, local and other services. Cross-examination of Ameritech's witnesses in this proceeding, however, makes Ameritech's real objective in requesting a license in this case more transparent. Ameritech's real intentions with respect to its request for a license in this case apparently are related less to a desire to provide local exchange service, and related more to an attempt to circumvent the statutory

competitive safeguards for affiliates of incumbent monopoly Regional Bell Operating Companies (RBOC) in connection with the provision of interLATA services.

The federal Telecommunications Act of 1996 authorizes a regional bell holding company to offer interLATA long distance services both within and outside of their respective regions, provided that the regional bell holding company complies with certain items contained on a so-called "competitive checklist" set forth in Section 151 of the Act. ⁴⁷ USC § 271. In its direct presentation in this proceeding, Ameritech Communications attempts to demonstrate that its operating and corporate relationships with Ameritech and Ameritech Michigan, in connection with its purported desire to provide basic local exchange services and "one-stop shopping" phone service, comply with the requirements contained in the "competitive checklist" of Section 151 of the federal Act³ with respect to the provision of interLATA service. In doing so, Ameritech Communications' true desire appears to be to have the Commission give, implicitly through the grant of a license to provide local exchange service, an imprimatur that Ameritech has complied with the "competitive checklist" of the FTA so as to enable it to then obtain approval to provide interLATA long distance service. Cross-examination of Ameritech Communications' witnesses demonstrate the true intentions for the request for a license in this case.

For example, Ameritech's own witness David Teece admits that the real focus of Ameritech Communications' competitive interests lie in the market for long distance services and not local exchange service. Upon cross-examination Mr. Teece testified:

Q. You would agree, also, that ACI since it's competing with Ameritech Michigan for at least some business also should not have access to certain information; correct?

³47 USC § 271

- A. Well, from ACI's competitors like AT&T and Sprint and MCI, yes.
- Q. No. No. No. I'm talking about Ameritech Michigan information.
- A. Yes. But remember -- I mean, this is a point I made last time. The fact that ACI and Ameritech are competitors is purely ancillary to the fact that ACI is trying to go and compete against AT&T. I think it's more proper from an economic point of view to see ACI as primarily a purchaser from Ameritech. So it's more a buyer-supplier relationship rather than a competitive one. That just sort of is ancillary fallout to the fact that they're trying to design a business model that will enable them to go compete against AT&T, MCI, Sprint and the other long distance carriers.
- Q. And so the focus of the Commission should be on setting up an entity that can compete against AT&T; correct?
- A. I'm not saying precisely that. I'm saying to understand why the certification is important. I think you have to recognize what the fundamental strategic thrust here is, and that's to go compete in the long distance market. Now, I mean, there's lots of things the Commission has to consider, but if it doesn't do so in that context I think it would be hard to understand what's really going on here.

6 Tr 1088-1089 (*Emphasis added*) As Dr. Teece's testimony clearly demonstrates, Ameritech's true objective is to compete in the long distance market. The focus of Ameritech Communications' business concern as relating to the provision of long distance service becomes even more evident as Teece continued his testimony:

- Q. How would a competitor, MCI or Comcast, know if the deal they had negotiated was different from the deal that ACI had negotiated?
- A. Well, I would just simply point out that if they weren't given the same deal, if there was discrimination, it would be actionable. So they would have some confidence that they

would be presented the same deal if they were looking for something in that neighborhood because, otherwise, Ameritech would be in violation of the discrimination rules.

Q And so your -- it's your position that Ameritech basically will never violate the discrimination rules or --

A Well, no, not necessarily, although I would hope that would be the case. There's all kinds of penalties, and, as I said before, there is the -- the larger environment here is one where Ameritech is trying hard to get permission to compete in long distance, and if there's a litany of evidence that they have not been in compliance, they won't be able to get what they're asking for.

§ 1096 Emphasis added

Dr. Teece then again reiterated Ameritech's true intentions to serve the long distance market and the effect of approval of a license in this case with respect to its ability to provide interconnection long distance service in the future.

Q With respect to the time line under consideration as part of this application and as part of what we've been discussing with the federal checklist, is there a point in which -- let's say hypothetically ACT received approval for local service here in Michigan, correct, okay?

A Okay.

Q Then -- first off all, as soon as they receive approval under the obligations of being compensated, one has to be ready and open for business, correct? You have to -- if somebody asks you for service, you have to start it, correct?

A Yes.

Q Okay. Now, with respect to the federal checklist on long distance, that might take a little bit longer, correct? That might take into '97 perhaps. We don't really know isn't that right?

A Well, they're not on the same clock. It's an independent clock.

Q: So we have two different time elements here for two different activities; correct?

A: Yes.

Q: Okay. What is it that ACI is going to be able to do that Ameritech would not be able to do in the local sphere during this time of lack of uniformity on the time schedule?

A: I'm not quite sure what you're asking. Are you saying --

Q: For 1996, for instance, hypothetically if ACI had approval --

A: Yes.

Q: -- why would it be any different that Ameritech for local service in terms of what it could do versus what Ameritech could do?

MR. DEMLOW: Again, your Honor, does counsel mean Ameritech Michigan?

Q: (By Mr. Rowland) Excuse me, I apologize, Ameritech Michigan.

A: I don't think there would be any basis for significant differentiation.

Q: Okay. When you speak of efficiencies, one of the efficiencies that you're talking about in your testimony has to do with cost savings; is that correct?

A: Well, efficiencies result in cost savings.

Q: Okay. So for the period when we had two -- under my hypothetical we have two companies operating at the same time, we might have increased costs, not fewer cost; correct?

A: Well, no, I don't see why it would have been any higher. I mean, if you're asking because we've got certification in the local exchange does that imply if they have that before they have clearance to compete long distance does that imply higher costs. No, I don't see that implication following. I mean, it may enable them to get ready to compete in the long distance market with more certainty about the outcome.

Q: But if we have employees working for Ameritech Michigan, at the same time we have employees working for ACI essentially doing the same types of activities, we have two costs; correct?

A: Well, I wouldn't expect duplication of that kind. And if ACI did have the permission to enter the local -- had local certification before it had permission to go long distance, it's not necessarily going to spend money for the sake of it. I mean, it's going to, as I understand it, prepare to compete in the long distance market.

6 Tr 1107-1109 (Emphasis added). In continuation of his cross-examination, Dr. Teece then demonstrated how important it is to Ameritech to obtain a license in this case with respect to its true objective of competing in the long distance market:

Q: Okay. Thank you.

Dr. Teece, I heard earlier today, and correct me if I'm wrong, when we were talking about discrimination the fact that a company would not discriminate because there is a penalty out there. Is that essentially what you were saying, that there's a penalty on the law, therefore, one would not engage in it?

A: No. There's really two things. The one that I emphasize in my direct testimony, I think, is more powerful, and that is it's not an efficacious strategy. The best way to get ahead in markets, particularly in this new long distance market, is to compete head on with your competitors. And there's tremendous focus on the possibilities of discrimination. But if a company was to take that and say, "Well, gee, the way I'm going to win in this market is by going the discrimination route rather than competing for customers through offering superior products at better prices" -- I mean, if you ask me as a business school professor which one would a sensible CEO recommend, which one would a student talk about with enthusiasm, certainly wouldn't talk about the discrimination story. So that's point one.

Point two is, yes, that there are penalties and -- in the total. It's not just sort of the narrow penalties that are specified in the act, but here a company is trying ultimately to get approval to go into the long distance business from the FCC and the Department of Justice, and if you walk in with a litany of -- with a long tail of discrimination

accusations, I would say the chances that the Department of Justice is going to see that letting you into the long distance business is in the public interest are certainly less than they would otherwise be, and given the magnitude of what's at stake here I cannot believe that that doesn't temper what managers want to do.

Q. If the time line was such that a Bell operating company or GTE received approval to get into the long distance business and some of these issues on discrimination might not have been well documented until after the fact, the Bell operating company is already in the long distance business, correct?

A. Yes.

6 TR. 115-116 (Emphasis added).

The testimony of its own witness Dr. Tease makes it abundantly clear that Ameritech Communications appears less concerned about obtaining a license to actually provide local exchange service in Michigan than it does with obviating the federal competitive requirements to jump into the interLATA long distance market. The Commission should therefore reject Ameritech Communications' license application in this case since Ameritech is apparently attempting to bootstrap an approval of a license in this case as sort of first accomplish with respect to future compliance of competitive requirements with its entry into the long distance market.

II. AMERITECH COMMUNICATIONS' AFFILIATE RELATIONSHIP WITH AMERITECH RAISES SERIOUS CONCERN AS TO WHETHER GRANTING A LICENSE TO AMERITECH COMMUNICATIONS FOR BASIC LOCAL EXCHANGE SERVICE MAY BE CONTRARY TO THE PUBLIC INTEREST

Section 302(d) of the Michigan Telecommunications Act ("MTA") sets forth the criteria for approving an application for a license to provide or resell basic local exchange service as follows:

ATTACHMENT B

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the Matter of the Application of)
AMERITECH COMMUNICATIONS, INC.)
for a License to Provide Basic)
Local Exchange Service to Ameritech)
Michigan and GTE North, Inc.)
Exchanges in Michigan)

)

Case No. U-11053

REPLY BRIEF
OF TCG DETROIT, INC.

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Dated: June 24, 1996

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the Matter of the Application of)
AMERITECH COMMUNICATIONS, INC.)
for a License to Provide Basic) Case No. U-11053
Local Exchange Service to Ameritech)
Michigan and GTE North, Inc.)
Exchanges in Michigan)

REPLY BRIEF
OF TCG DETROIT, INC.

Pursuant to the hearing schedule established by the Administrative Law Judge in this proceeding, TCG Detroit, Inc. ("TCG") replies to the Initial Brief submitted by Ameritech Communications, Inc. ("Ameritech Communications"). In this Reply Brief, TCG responds to certain of the assertions and arguments raised by Ameritech Communications in its Initial Brief. The fact that TCC does not provide a response in this Reply Brief to each and every assertion or argument raised by Ameritech Communications must not be construed to mean that TCG supports or agrees with such assertion or argument or that it is waiving its objections or positions on the issues addressed by such assertion or argument. This Reply Brief must be read in conjunction and in concert with TCC's Initial Brief submitted on June 17, 1996 in this case.

ARGUMENT

- I. AMERITECH'S APPLICATION FOR A LICENSE TO PROVIDE BASIC LOCAL EXCHANGE SERVICE IS REALLY INTENDED TO ACT AS A VEHICLE IN WHICH TO CIRCUMVENT COMPETITIVE SAFEGUARDS IN PROVIDING INTERLATA LONG DISTANCE SERVICE

Throughout its Initial Brief in this case, Ameritech Communications repeatedly asserts that the purpose of its application for a license to provide basic local exchange service is to be able to provide customers with "one-stop shopping," so as to offer "integrated packages" of local exchange and interexchange long distance phone services once Ameritech Communications is able to obtain "appropriate approvals." ACT Brief, pp. 5, 12, 23, and 47. However, the record evidence in this case demonstrates that Ameritech's real objective in seeking a license in this case is to allow it through the guise of a license for basic local exchange, to circumvent competitive safeguards for regulated incumbent monopoly Regional Bell Operating Companies in connection with the provision of interexchange long distance service.

Ameritech goes to great pains in its direct presentation and in its Initial Brief in this case to convince the Commission that the creation of Ameritech Communications and its anticipated corporate and operating relationship with its parent, Ameritech Corporation, and with its affiliate, Ameritech Michigan, are intended to comply with the statutory competitive requirements and safeguards embodied in the Federal Telecommunications Act of 1996 ("FTCIA") and the Michigan Telecommunications Act of 1995 ("MTCA"). See, § 27-277, 47 CFR 1556, 47 CFR 27, 47 CFR 27.5, 47 CFR 27.6. Apparently, Ameritech intends to have it shown that, through the granting of a license by the Commission in this case, it will have complied with the competitive safeguards of the FTCIA so as to facilitate its entry into the provision of interexchange long distance service. Cross-examination of Ameritech Communications' witnesses revealed its true objectives with respect to its request for a license in this case, however. During cross-examination of Ameritech's witness David Teese, it became abundantly clear that Ameritech Communications' overarching interest is

entry into and competing in the interLATA long distance market. For example, Dr. Teece testified repeatedly that Ameritech Communications' interest in the provision of local exchange is ancillary to its real business focus of competing with AT&T, MCI and Sprint in the long distance market.¹ When asked a series of questions about whether Ameritech Communications, as Ameritech Michigan's "competitor" in the local exchange market, may have access to information on Ameritech Michigan's network, Ameritech's witness Teece revealed Ameritech Communications' true objectives in this case:

- Q. You would agree, also, that ACI since it's competing with Ameritech Michigan for at least some business also should not have access to certain information; correct?
- A. Well, from ACI's competitors like AT&T and Sprint and MCI, yes.
- Q. No, No, No. I'm talking about Ameritech Michigan information.
- A. Yes. But remember -- I mean, this is a point I made last time. The fact that ACI and Ameritech are competitors is purely ancillary to the fact that ACI is trying to go and compete against AT&T. I think it's more proper from an economic point of view to see ACI as primarily a purchaser from Ameritech. So it's more a buyer-supplier relationship rather than a competitive one. That just sort of is ancillary fallout to the fact that they're trying to design a business model that will enable them to go compete against AT&T, MCI, Sprint and the other long distance carriers.

¹In its Initial Brief, TCG cited to numerous references in this record at which Ameritech Communications revealed its true underlying objectives with respect to its obtaining a license to provide basic local exchange service in this case. See TCG Brief, pp 4-10. Therefore, TCG does not believe it is necessary to recite all of these references. However, TCG believes that restating certain portions of this testimony is useful in demonstrating just how transparent are Ameritech Communications' true objectives with respect to its application.

Q. And so the focus of the Commission should be on setting up an entity that can compete against AT&T; correct?

A. I'm not saying precisely that. I'm saying to understand why the certification is important. I think you have to recognize what the fundamental strategic thrust here is, and that's to go compete in the long distance market. Now, I mean, there's lots of things the Commission has to consider, but if it doesn't do so in that context I think it would be hard to understand what's really going on here.

6 Tr 1083-1089 (Emphasis added). When asked questions about the possibility of discrimination by Ameritech in favor of its affiliate, Dr. Teece again reiterated Ameritech's true objectives with respect to its application for a license in this case.

Q. And so your -- it's your position that Ameritech basically will never violate the discrimination rules or --

A. Well, no, not necessarily, although I would hope that would be the case. There's all kinds of penalties, and, as I said before, there is the -- the larger environment here is one where Ameritech is trying hard to get permission to compete in long distance, and if there's a litany of evidence that they have not been in compliance, they won't be able to get what they're truly after.

6 Tr 1096 (Emphasis added).

While proclaiming in its application, and through the direct written testimony of its witnesses, that it desires to provide basic local exchange service to customers, Ameritech Communications witnesses again revealed during cross-examination just how disingenuous these purported intentions are. For example, Ameritech witness M. Ryan Julian testified that he could not state whether Ameritech Communications would continue to exist if Ameritech decided to establish another affiliate which might provide long distance service only, or if Ameritech Michigan were to enter the long

distance market after the three year minimum period under FCC rules expired and were to offer "one stop shopping." 47 FR 601-603. In addition, in response to a question about the possibility of duplicate costs resulting from Ameritech employees working for Ameritech Communications and Ameritech Michigan, Ameritech witness Teece stated:

Well, I wouldn't expect duplication of that kind. And if ACI did have the permission to enter the local -- had local certification before it had permission to go long distance, it's not necessarily going to spend money for the sake of it. I mean, it's going to, as I understand it, prepare to compete in the long distance market.

6 TCG 1109 (Emphasis added). In other words, Ameritech Communications would not invest in basic local exchange in the absence of authority for the provision of interLATA long distance service. Instead it would wait to invest in order to compete in the long distance market. As can be seen, the record in this case clearly shows that Ameritech's overarching interests in establishing Ameritech Communications and seeking a license in this proceeding is to compete in the long distance market, not to provide basic local exchange service, and, contrary to Ameritech's assertions, not to offer customers "one stop shopping" capabilities. Apparently, Ameritech hopes that Commission approval of its license in this case would legitimize its purported plan to comply with statutory competitive safeguards. Therefore, the Commission should be extremely skeptical in evaluating Ameritech Communications' application in this case. TCG submits that in carefully evaluating the evidence in this case, and by looking through Ameritech Communications' proffered assertions that it wishes to provide local exchange service and/or "one stop shopping," the Commission will understand, as Dr. Teece stated, what Ameritech is "truly after" in this case, that is to compete in the long distance service market.

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

Application of Ameritech Communications,)
Inc. for a License to Provide Basic Local)
Exchange Service in Ameritech Michigan)
and GTE North, Inc. Exchanges in Michigan.)
)

MPSC Case No. U-11053

PROOF OF SERVICE

STATE OF MICHIGAN)
) SS.
COUNTY OF INGHAM)

I, Cathy Dawn Martin, being duly sworn, depose and say that on July 29, 1996, I served a copy of TCG Detroit, Inc.'s Exceptions to the Proposal for Decision upon:

See attached service list.

Except as otherwise noted on the attached list, service was accomplished by facsimile.

Cathy Dawn Martin
Cathy Dawn Martin

Subscribed and sworn to before me
this 29th day of July, 1996.

Karen Lamb
Karen Lamb, Notary Public
Clinton County Acting in
Ingham County, Michigan
My Commission Expires: May 4, 1997

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Case No. U-11053

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